R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 21B
June 7, 1985

IN THIS ISSUE:

EPA Reports Solid Economic Growth, Possible Pitfalls 1

Tokyo Holds Defense Talks With China, Washington 3

Electoral Reform Bill Introduced; Nakasone Popularity Hits Record 4

Recent Social Legislation in Japan: Equal Opportunity Legislation Passes; Fingerprinting Regulations Revised 6

U.S.-Japan Telecommunications Dialogue Continues 8

The Deteriorating U.S. Trade Account: Is The Worst Over? 10

JEI Personnel Changes 13

EPA Reports Solid Economic Growth, Possible Pitfalls

Japan's Economic Planning Agency (EPA) recently reported that the Japanese economy remains on a path of moderate growth, but warned that there is a distinct possibility of a slowdown in fiscal 1985 (April 1, 1985-March 31, 1986). Statistical evidence shows growth spread more evenly throughout the economy as Japanese corporations turned in excellent performances in fiscal 1984. Although this has led to bullish investment plans, the economy is still plagued by a weakness in domestic demand and remains dependent on foreign trade

service, as well as new services. In cooperation with NEC Corp., Hitachi, Ltd., Fujitsu, Ltd. and Nihon Keizai Shimbun Inc., NTT will offer a nationwide value-added network through a joint venture, Internetwork Planning Inc. On the international front, NTT International, a new NTT subsidiary, will seek foreign partners for overseas projects. Despite previous work with the semi-governmental Japan Telecommunications Engineering and Consulting Co., Ltd. on international orders, Mr. Shinto admitted that NTT "lacks the capability for big international ventures." The new subsidiary hopes to capitalize on the parent company's experience in planning and construction supervision, while drawing on the marketing expertise of foreign firms. The new NTT seems to be breaking the habits of its public monopoly past quite quickly.

Jon Choy

The Deteriorating U.S. Trade Account: Is The Worst Over?

This country's yawning trade gap exacted a heavy toll on the U.S. economy in 1985's first quarter, knocking 3.3 percentage points off the growth of inflation-adjusted gross national product. At $27.4 billion, the merchandise trade deficit on a clearance basis (exports f.a.s., imports Customs value) was $4.1 billion bigger than in the October-December 1984 period and $1.8 billion larger than in the year-earlier quarter. Exports continued to buck the demand-dampening effects of the high-flying dollar and sluggish economic growth abroad, but the January-March 1985 increase of 4.4 percent to $56.2 billion was the smallest gain in five quarters. Imports, paradoxically, expanded in 1985's first three months by the slimmest margin in eight quarters, rising just 5.2 percent to $83.5 billion because of a drop in oil imports and a markedly slower increase in purchases from Canada and the European Community.

While stiff import competition will wreak havoc on U.S. manufacturers' business results for the rest of 1985, economists expect the trade account to be much less of a drag on growth than it was in the January-March period. Current projections peg the trade deficit at only $10 billion to $15 billion above 1984's $107.8 billion red-ink tally, mainly because the anticipated slowdown in domestic growth this year will limit the expansion of imports.

Unlike 1984, worsening trade results with Japan could account for most of the erosion in the U.S. trade account this year. In fact, the bilateral deficit could easily jump by $10 billion to $44 billion. In just the opening quarter of the year, $2.9 billion was added to this country's red-ink entry with Japan, pushing it to $10.2 billion. Shipments to Japan outperformed total U.S. exports -- but so did imports, which climbed five times faster than aggregate purchases (see accompanying tables).

Susan MacKnight

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January-March 1984	January-March 1985	Percent Change
Total Exports	$5,694.9	$6,252.3	9.8%
Industrial Supplies	2,225.4	2,434.5	9.4
Bituminous Coal	277.9	231.2	-16.8
Petroleum Products	104.6	217.5	107.9
Natural Gas	72.9	72.4	-0.7
Nuclear Fuels	24.1	42.7	77.2
Logs and Lumber	201.0	215.2	7.1
Paper Base Stocks	132.7	123.8	-6.7
Paper and Paper Products	66.5	67.6	1.7
Organic Chemicals	177.7	183.2	3.1
Inorganic Chemicals	112.2	256.8	128.9
Plastics and Synthetic Resin Compounds	91.5	80.1	-12.5
Fertilizers and Insecticides	86.6	90.8	4.8
Steel Scrap	62.3	52.5	-15.7
Nonferrous Ores and Scrap	91.7	110.1	20.1
Nonferrous Metals	136.7	91.3	-33.2
Textiles	26.7	31.3	17.2
Raw Cotton	184.5	183.9	-0.3
Hides and Skins	81.2	69.8	-14.0
Leaf Tobacco	40.0	40.0	0.0
Food and Feed	1,476.8	1,213.7	-17.8
Corn	553.7	371.8	-32.9
Sorghum	96.1	105.4	9.7
Soybeans	298.4	246.5	-17.4
Wheat	111.9	118.1	5.5
Fruits and Vegetables	106.7	103.8	-2.7
Meat and Meat Products	164.2	130.0	-20.8
Fish and Fish Products	50.8	52.7	3.7
Capital Goods	1,335.7	1,736.3	30.0
Nonelectric Machinery	831.3	932.7	12.2
Data Processing Equipment	246.6	370.4	50.2
Measuring, Testing and Control Instruments	116.4	136.3	17.1
Laboratory Testing and Control Instruments	25.6	31.0	21.1
Scientific, Professional and Medical Equipment	64.8	69.8	7.7
Power Generating Equipment (excl. aircraft and automotive engines)	101.7	16.2	-84.1
Oil and Gas Field Equipment	16.5	9.3	-43.6
Metalworking Equipment	19.5	29.7	52.3
Service Industry Equipment	27.3	30.6	12.1
Electric Machinery	218.7	236.5	8.1
Generators and Transformers	26.3	20.4	-22.4
Broadcast and Communications Equipment	113.1	102.1	-9.7
Telephonic and Other Electric Equipment	79.3	114.0	43.8

Transportation Equipment	285.7	567.1	98.5
Civilian Aircraft	90.1	355.8	294.9
Civilian Aircraft Engines and Parts	109.3	138.4	26.6
Automotive Parts	45.5	44.1	-3.1
Consumer Goods	354.8	368.4	3.8
Pharmaceuticals	134.8	155.2	15.1
Toys and Sporting Goods	25.0	23.2	-7.2
Cigarettes	25.2	21.5	-14.7

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January-March 1984	January-March 1985	Percent Change
Total Imports	$13,006.2	$16,493.4	26.8%
Capital Goods	4,295.3	5,529.2	28.7
Nonelectric Machinery	2,968.1	3,750.8	26.4
Business Machines	1,528.9	1,748.4	14.4
Metalworking Machinery	195.7	292.1	49.3
Agricultural Machinery	95.4	101.5	6.4
Specialized Industrial Machinery	299.6	313.4	4.6
Scientific, Professional and Medical Equipment	109.3	147.7	35.1
Electric Machinery	1,278.0	1,710.1	33.8
Transportation Equipment	49.2	68.3	38.8
Automotive Products	4,207.3	5,380.5	27.9
Passenger Cars	2,850.2	3,326.6	16.7
Trucks	571.7	983.6	72.0
Automotive Parts	785.3	942.7	20.0
Consumer Goods	2,516.7	3,449.4	37.1
Video and Audio Recorders and Players and Stereo Equipment	762.5	1,302.7	70.8
Television Sets	137.3	190.8	39.0
Radio Receivers	67.2	82.3	22.5
Tableware and Glassware	96.3	109.4	13.6
Metal Cookware and Cutlery	93.8	98.0	4.5
Photographic and Optical Goods	243.6	242.8	-0.3
Clocks and Watches	82.6	114.6	38.7
Toys and Sporting Goods	97.0	118.3	22.0
Motorcycles and Parts	208.2	224.1	7.6
Clothing	133.0	132.1	-0.7
Intermediate Goods	1,779.4	1,865.8	4.9
Steel Mill Products	720.0	867.6	20.5
Nonferrous Metals	129.8	126.2	-2.8
Organic Chemicals	116.3	151.0	29.8
Tires and Tubes	142.6	144.8	1.5
Textiles	177.7	174.0	-2.1